CASE STUDY

$20M+ savings within the first 12 months

E-PAYMENTS SURPRISES WITH BIG SAVINGS

Debunking long-held belief about credit card payments leads to financial and operational gains.

Upon discovering that credit card fees from customer payments were one of the largest selling general and administrative (SG&A) costs, a large medical device manufacturer embarked on a program to address this area of significant margin erosion. Leveraging internal data on customers, contracts and payments, and third-party research on industry payment trends, the Credit and Collections team established enterprise-wide support for payment policy reform.

RESULTS

Migration of 99% of its hospital/acute care customers off credit card payments, many of which have adopted the ePay program

An average DSO below 12 days on more than $1B annually while increasing automation and reducing exception rates

Cost avoidance and hard dollar savings of $20M+ from DSO stability and reduced credit card fees

Growth in ePay processed transactions more than 4-fold from $257M in 2017 to over $1B in 2019

Labor savings as a result of process automation and less time spent chasing payments and managing discrepancies

Touchless cash application with reduced collections efforts as hospitals are proactively working to pay without outreach for late pay or resending of invoices

Faster access to cash with no credit card fees

The manufacturer turned to GHX for ePay, a cloud-based integrated payments platform which extends channel consolidation and automation of the procure-to-pay process through to accounts receivable (AR). The solution not only supports the company's goal to reduce credit card fees, but also provides its customers with a best in class payment processing experience.

Turning its sights on external change management, the company engaged with customers on a transition from traditional credit card payments to ePay, with a focus on communication and collaboration. By focusing customer communications on the benefit of overall payment process improvements and addressing their specific needs and concerns, the company migrated 99 percent of its hospital/acute care customers off credit card payments within 12 months, many of which adopted the ePay program.

As a result of these efforts, the company has saved over $20M through the reduction of credit card fees and avoidance of days sales outstanding (DSO) degradation, with faster access to cash and less time and labor spent managing the payment process. In addition, the ePay program delivers valuable financial rebates and operational efficiency through payment channel consolidation and process automation to its customers.

SITUATION

With the addition of a new director, global business services for credit and collections, a review was carried out to identify just how much the company was spending on credit card fees.

There is a strongly held belief across the industry that credit cards facilitate accelerated customer payments. To test that assumption, the director decided to dig into company card payment data and found about 50 percent of card payments came in after the agreed upon payment term maturation, with 50-60 percent of those payments being late or severely late.

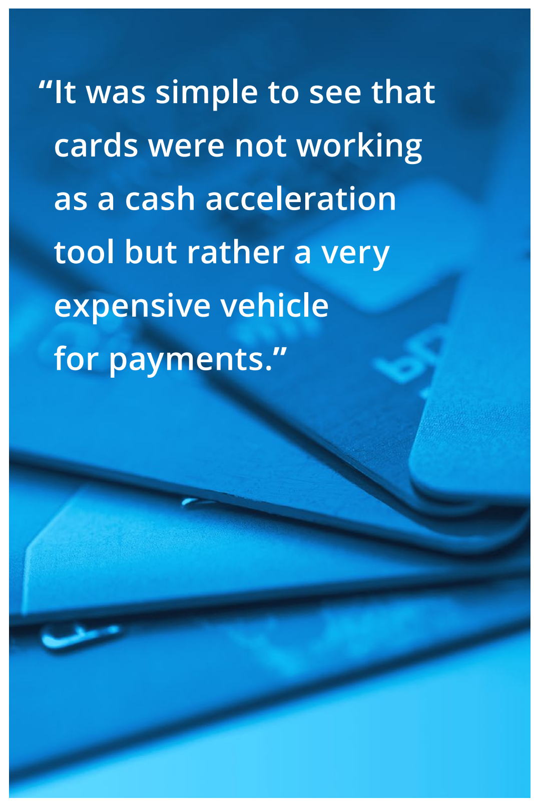
A data-driven approach to internal change management

Before they could begin to address the issue, it was imperative to show internal stakeholders what was really happening under the current card payment policy — which resulted in considerable margin-erosion and labor costs associated with managing late payments.

The controller for each sales division was presented with the findings. Data was presented on the timing of credit card payments and the impact on the profit and loss (P&L) statement for each specific division. And wrapping up the case for change to the current card policy, the team outlined the anticipated operational and financial benefits of phasing out card payments.

There was also a misconception among the sales teams and others that there were contractual obligations with many customers to accept credit card payments. So additional investigation was conducted in collaboration with each sales division to evaluate the company's contracts. They assessed contracted payment terms with customers that were paying via credit card, starting with the largest customers in terms of revenue and working down the list. It turned out that less than one percent of customers had in place a contractual obligation to accept card payments.

"When you look across your entire budget and discover your largest expense ties back to your ability to get paid, that requires a significant amount of thought around whether your payment strategy makes strategic and financial sense."



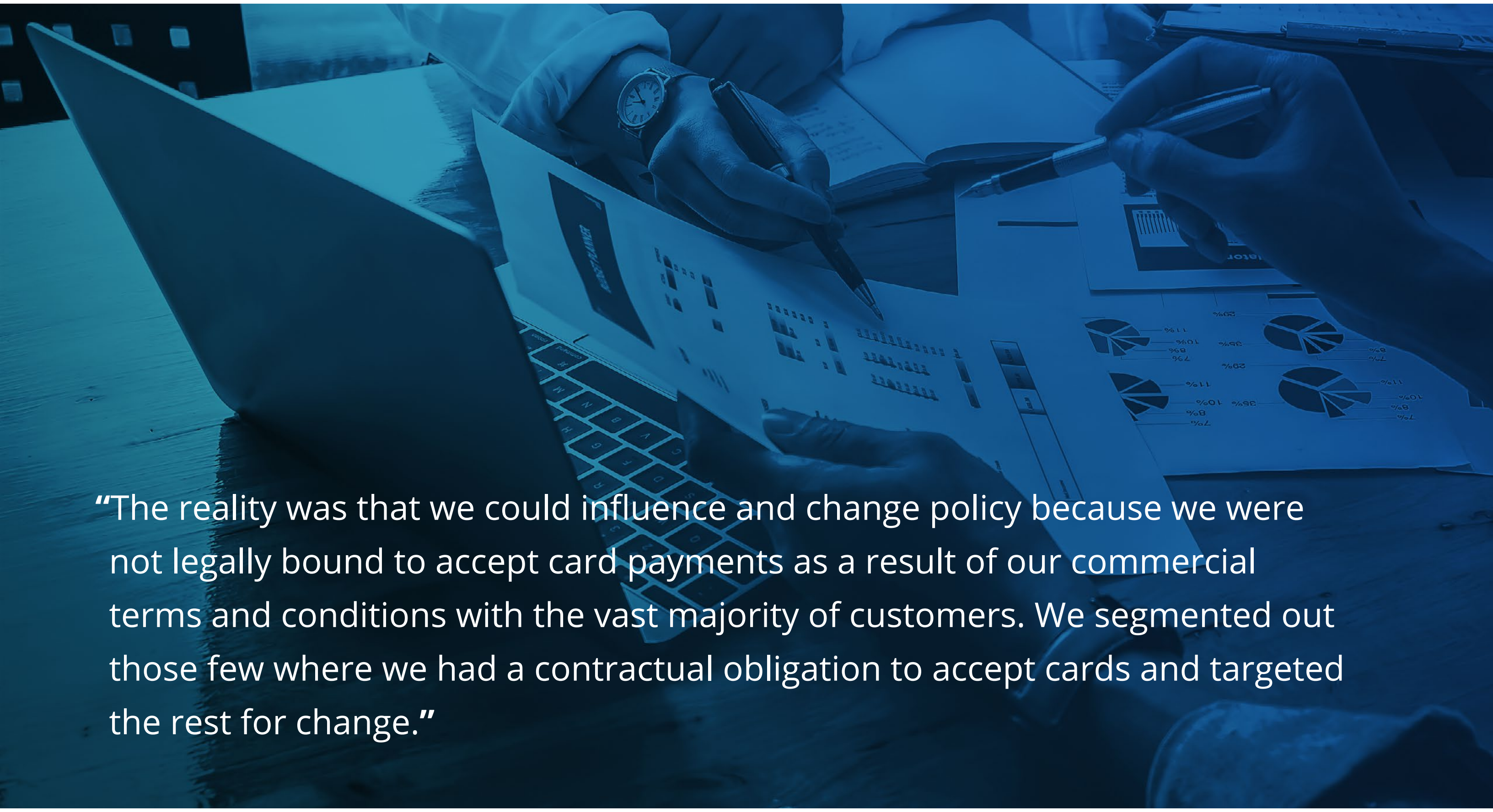
"It was simple to see that cards were not working as a cash acceleration tool but rather a very expensive vehicle for payments."

In order to understand the overall state of credit card payments in the healthcare industry, the company participated in a survey with Kaiser Permanente, and conducted additional research in conjunction with a consortium of other med-tech companies. The team also reached out to its internal auditors and outsourcing business partner to find out what they were seeing in the industry related to payment trends. In addition, they consulted with their legal department to ensure that whatever policy they enacted related to card transactions would not conflict with existing agreements with card companies or any commercial laws.

"From all of this research we could see that many in the industry were embracing payment policy reform. This transition would likely not be unfamiliar to our customers. As such, we felt confident in transitioning to a new solution for our customers with ePay."

With evidence in hand that phasing out credit card payments was in the best interest of the company, the team assembled an executive committee comprised of key stakeholders from the executive commercial sales team, and those that represented each of the divisions from a financial perspective, including the CFO, SVP of Operations, Chief Accounting Officer and Treasurer.

The executive committee was comprised of people who would care about the cash collection potential versus the savings impact of the proposed change, noting the complexity of understanding what was essentially a "P&L versus balance sheet trade off" as opposed to a "balance sheet to balance sheet" or "P&L to P&L" savings opportunity. Upon reviewing the data and supporting information, the executive committee agreed to work with the team on a governance process to guide the way forward.



"The reality was that we could influence and change policy because we were not legally bound to accept card payments as a result of our commercial terms and conditions with the vast majority of customers. We segmented out those few where we had a contractual obligation to accept cards and targeted the rest for change.**"**

“Our customers are motivated by the rebates and ease of doing business through ePay. Having a single platform that feeds into their local enterprise resource planning (ERP) systems provides corresponding operating cost savings beyond the rebate benefits.”

SOLUTION

The manufacturer had long-standing relationships with thousands of hospitals already automating billions of dollars in order to invoice transactions across the GHX platform. Therefore, it made strategic sense for the company to extend channel consolidation and automation of the procure-to-pay process through to accounts receivable (AR) by massively scaling adoption of the GHX ePay solution. The decision was made to end its traditional support of credit cards and leverage ePay as an industry scalable, full-service payment platform for the company and its customers.

A key difference between the ePay platform and traditional automated clearing house (ACH) payments is control and visibility. With the conventional ACH process, a customer can make a payment at any point in time — before the due date, at the due date, or even days, weeks or months later. With ePay, the customer is financially incented, in the form of early pay rebates, to make accelerated payments with a governance process in place to verify that early payment did in fact occur. Furthermore, all of the payment data is flowing through the ePay platform and is visible to both the manufacturer and its customers, allowing both parties to better manage the payment process.

A best-in-class model for external change management

With customer experience front of mind, the team developed a strategy for transitioning customers off credit card payments and onto ePay with a strong focus on communication and collaboration. They kicked off with a letter campaign to all customers that were transacting via credit card three months prior to the launch date for ePay. They sent written letters to these customers to notify them of their new policy and program — then sent out a second round of letters on the transition and engaged in phone conversations with customers to answer questions and provide direction. As part of this effort, the automated greeting on the company’s payment support phone line was changed so that it explained the new policy and the effective date in an effort to drive customer awareness through more touch-points.

The team also met with each of its sales divisions and provided copies of the customer letter and a frequently asked questions (FAQ) document related to the transition that the sales teams could use for customer conversations.

During this time, the executive committee for the ePay transition continued to meet internally to discuss progress and manage any bumps in the road. The AR team was able to manage 95 percent of communication from customers on the transition. But for those customers requiring additional support, a process was put in place to escalate. If the AR team felt it could not effectively manage a customer conversation, they would escalate that customer up to the management team. Within those 5 percent of escalated cases were customers that needed engagement from a specific division, or cross-divisional customers that needed support from corporate accounts.

If a customer claimed that its agreement denoted the ability to pay via credit card, the team would pull that contract and with help from their legal department and divisional contracts teams determine whether the claim was warranted. A key factor in the success of the ePay program roll out was focusing customer conversations not on credit cards but rather the payment process in general.

"We asked questions and listened to them about how their procure-to-pay processes worked, their standard payment process and frequency, their partnerships and what was important to them (e.g., cash flow, leveraging money). Sometimes a customer just needed another couple of weeks to make the transition and it was in my discretion to make that decision. In the end, we successfully supported our go to market and commercial sales organization, while also driving policy change and the associated OPEX benefits."

BENEFITS

Within 12 months, the company migrated 99 percent of its hospital/acute care customers off credit card payments, many of which now leverage the ePay program. The financial and operational benefits have been significant.

Hard dollar savings and cost avoidance

Use of the ePay program, which reduced credit card fees while also keeping overall DSO flat, resulted in savings over $20M.

Regarding DSO, the organization believed that the transition from credit card to ePay would delay payments and estimated 18-24 months to restore DSO back to pre-project levels. But because the transition went so well, and the GHX ePay team helped onboard several new, large customers, the company stayed completely DSO neutral within the first year.

"This is a tremendous success from a cash perspective. There was significant value in being able to stay DSO neutral year-over-year knowing we made a multi-million dollar policy change within the marketplace. We did what we set out to do and we did it faster than the organization thought we would be able to execute it."

The ePay program features simple rules for all parties to follow — manufacturers and their customers. Customers that meet the program's criteria benefit

"With ePay, we can report cash more quickly on the customer's account, so they know when their payment has been applied. This is a significant benefit from a reconciliation perspective. When you think of the thousands of invoices that pass back and forth between us and these customers, we can now move very quickly to offset those invoices, making them come off the statement and showing customers only what is open and waiting to be paid."

from process automation and secure valuable financial rebates, while those that exceed the payment timeframe still gain the automation benefits but without the rebates.

It is reported that customers are making a greater effort to resolve discrepancies and disputes much earlier in the process so they can secure rebates that come from paying within GHX's governing structure. The team is receiving communication from customers on mismatched pricing and other issues far sooner, and some customers are willing to overlook fractional price discrepancies with the recognition that paying on time and securing the rebate will provide greater benefits than spending the time and labor to dispute insignificant differences.

"While our AR is growing 6-8 percent year-over-year as a result of sales growth, we are seeing a reduction in the amount of disputed dollars that we have tied up at any point, which is a significant achievement. Customers are motivated by the rebate incentive, but also the ease of doing business and OPEX benefit that comes with process simplification."

Automated Reconciliation Time and labor savings

By extending the centralization and automation of the procure-to-pay process through to accounts receivable (AR) via GHX ePay, the company has reduced the time and labor required to manage the payment process. The payment data the company receives from GHX into its ERP system facilitates automatic application of cash at an AR sub-ledger level. This eliminates the need for the AR team to manually enter payment information into the ERP system to offset invoices and payments.

"We have removed the need to have any labor touch any of those cash applications unless they fail for some reason, and I would say 99.9 percent of all payments that come through ePay are auto applied."

Automation of processes benefits the company's customers as well, since it reduces the time and labor required to send payments and increases visibility to invoice payment status.

"With GHX ePay, I have governance where I am reasonably confident to receive cash acceleration that I otherwise would not have received."

Learn more about GHX ePay **at ghx.com**